



TOWNSHIP OF BROWN
Manistee County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended June 30, 2005

AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Township of Brown	County Manistee
Audit Date June 30, 2005	Opinion Date November 19, 2005	Date Accountant Report Submitted to State: December 12, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686	City Bay City	State MI	Zip 48707
Accountant Signature Campbell, Kusterer & Co., P.C.			

TOWNSHIP OF BROWN
Manistee County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA
KENNETH P. KUSTERER, CPA

512 N. LINCOLN AVE. - SUITE 100
P.O. BOX 686
BAY CITY, MICHIGAN 48707

TEL (989) 894-1040
FAX (989) 894-5494

INDEPENDENT AUDITOR'S REPORT

November 19, 2005

To the Township Board
Township of Brown
Manistee County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Township of Brown, Manistee County, Michigan as of and for the year ended June 30, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Township of Brown's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Township of Brown, Manistee County, Michigan as of June 30, 2005, and the respective changes in financial position thereof, for the year ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of July 1, 2004.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Township's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

TOWNSHIP OF BROWN
Manistee County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2005

The Management's Discussion and Analysis report of the Township of Brown covers the Township's financial performance during the fiscal year ended June 30, 2005.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year, except for a dramatic increase in standby fees to Dickson and Onkama Townships for fire and rescue service. These services increased approximately \$13,350.00 over the previous fiscal year and \$23,630.00 from two fiscal years previous (02/03).

Overall, revenues were \$98,055.11 from governmental activities with a \$49,131.47 decrease in net assets and a loss of 9% in state revenue sharing.

Taxable value increased by approximately \$3,780.00 or 16%.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of the basic financial statements and required supplementary information.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Township as a whole. The statements of net assets include all the Township's assets and liabilities. The statement of activities records all the current year revenues and expenses regardless of when received or paid.

All of the activities of the Township are reported as governmental activities. These include the General Fund and the Cemetery Perpetual Care Fund.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

During the year Johnson road was paved with the Township contributing \$34,000.00 for this road improvement. Fire/Rescue standby fees increased approximately \$13,350.00 from the previous fiscal year and \$23,630.00 from two fiscal years previous (02/03). Both of these expenses contributed to an overall decrease in the Township's cash position in governmental activities.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

The General Fund pays for most of the Township's governmental services. The most significant expenses are trash (9%), fire/rescue (23%), and roads (23%). Although fire/rescue and road expenses have increased dramatically, trash expenses have decreased approximately \$3,000.00 in the past year.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Township did not acquire any capital assets or acquire any long-term debt.

TOWNSHIP OF BROWN
Manistee County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended June 30, 2005

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The future of state revenue sharing is very clouded and represents 48% of our income. We are adopting a 1 mill fire/rescue millage in the next fiscal year to help offset the increase in fire/rescue standby fees.

CONTACTING THE TOWNSHIP'S MANAGEMENT

This financial report is designed to provide our taxpayers, creditors, and customers with a general overview of the Township's finances and to demonstrate the Township's accountability for the revenues it receives. If you have any questions concerning this report, please contact the Township Supervisor at 8233 Coates Hwy., Manistee, Michigan 49660 or call (231) 889-4327.

TOWNSHIP OF BROWN
Manistee County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2005

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	59 222 65
Investments	77 719 99
Due from other units	<u>7 228 00</u>
Total Current Assets	<u>144 170 64</u>
NON-CURRENT ASSETS:	
Capital Assets	87 603 00
Less: Accumulated Depreciation	<u>(26 414 00)</u>
Total Non-current Assets	<u>61 189 00</u>
TOTAL ASSETS	<u><u>205 359 64</u></u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES	<u>-</u>
Total Current Liabilities	<u>-</u>
NON-CURRENT LIABILITIES	<u>-</u>
Total Non-current Liabilities	<u>-</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	61 189 00
Reserved	7 853 32
Unrestricted	<u>136 317 32</u>
Total Net Assets	<u>205 359 64</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>205 359 64</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF BROWN
Manistee County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended June 30, 2005

	<u>Expenses</u>	<u>Program Revenue</u>	<u>Governmental Activities Net (Expense) Revenue and Changes in Net Assets</u>
FUNCTIONS/PROGRAMS			
Governmental Activities:			
Legislative	6 674 82	-	(6 674 82)
General government	47 667 11	13 852 67	(33 814 44)
Public safety	45 931 37	804 00	(45 127 37)
Public works	46 913 28	-	(46 913 28)
Total Governmental Activities	<u>147 186 58</u>	<u>14 656 67</u>	<u>(132 529 91)</u>
General Revenues:			
Property taxes			30 295 16
Other taxes			2 102 62
State revenue sharing			47 505 00
Interest			2 325 66
Miscellaneous			1 170 00
Total General Revenues			<u>83 398 44</u>
Change in net assets			(49 131 47)
Net assets, beginning of year			<u>254 491 11</u>
Net Assets, End of Year			<u>205 359 64</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF BROWN
Manistee County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2005

	<u>General</u>	<u>Other Funds</u>	<u>Total</u>
<u>Assets</u>			
Cash in bank	51 316 09	7 853 32	59 169 41
Investments	77 719 99	-	77 719 99
Due from other units	7 228 00	-	7 228 00
Due from other funds	<u>53 24</u>	<u>-</u>	<u>53 24</u>
Total Assets	<u>136 317 32</u>	<u>7 853 32</u>	<u>144 170 64</u>
<u>Liabilities and Fund Equity</u>			
Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund equity:			
Fund balances:			
Reserved	-	7 853 32	7 853 32
Unreserved:			
Undesignated	<u>136 317 32</u>	<u>-</u>	<u>136 317 32</u>
Total fund equity	<u>136 317 32</u>	<u>7 853 32</u>	<u>144 170 64</u>
Total Liabilities and Fund Equity	<u>136 317 32</u>	<u>7 853 32</u>	<u>144 170 64</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF BROWN
Manistee County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUND
TO THE STATEMENT OF NET ASSETS
June 30, 2005

TOTAL FUND BALANCE – GOVERNMENTAL FUND	144 170 64
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	87 603 00
Accumulated depreciation	<u>(26 414 00)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u>205 359 64</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF BROWN
Manistee County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUND
Year ended June 30, 2005

	<u>General</u>	<u>Other Funds</u>	<u>Total</u>
Revenues:			
Property taxes	30 295 16	-	30 295 16
Other taxes	2 102 62	-	2 102 62
Licenses and permits	804 00	-	804 00
State revenue sharing	47 505 00	-	47 505 00
Charges for services - PTAF	9 162 67	-	9 162 67
Charges for services - other	4 690 00	-	4 690 00
Interest	2 207 34	118 32	2 325 66
Miscellaneous	1 170 00	-	1 170 00
Total revenues	<u>97 936 79</u>	<u>118 32</u>	<u>98 055 11</u>
Expenditures:			
Legislative:			
Township Board	6 674 82	-	6 674 82
General government:			
Supervisor	5 319 00	-	5 319 00
Elections	1 931 50	-	1 931 50
Assessor	6 176 00	-	6 176 00
Clerk	6 724 45	-	6 724 45
Board of Review	842 60	-	842 60
Treasurer	12 069 11	-	12 069 11
Building and grounds	9 546 20	-	9 546 20
Cemetery	3 688 25	-	3 688 25
Public safety:			
Fire	33 584 99	-	33 584 99
Zoning	3 908 01	-	3 908 01
Planning Commission	8 438 37	-	8 438 37
Public works:			
Highways and streets	34 000 00	-	34 000 00
Sanitation	12 913 28	-	12 913 28
Total expenditures	<u>145 816 58</u>	<u>-</u>	<u>145 816 58</u>
Excess (deficiency) of revenues over expenditures	<u>(47 879 79)</u>	<u>118 32</u>	<u>(47 761 47)</u>
Other financing sources (uses):			
Operating transfers in	116 90	-	116 90
Operating transfers out	-	(116 90)	(116 90)
Total other financing sources (uses)	<u>116 90</u>	<u>(116 90)</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(47 762 89)</u>	<u>1 42</u>	<u>(47 761 47)</u>
Fund balance, July 1	<u>184 080 21</u>	<u>7 851 90</u>	<u>191 932 11</u>
Fund Balance, June 30	<u><u>136 317 32</u></u>	<u><u>7 853 32</u></u>	<u><u>144 170 64</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF BROWN
Manistee County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
Year ended June 30, 2005

NET CHANGE IN FUND BALANCE – TOTAL GOVERNMENTAL FUND (47 761 47)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(1 370 00)
Capital Outlay	-

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES (49 131 47)

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF BROWN
Manistee County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of Brown, Manistee County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Township contain all the Township funds that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Brown. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Township's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

TOWNSHIP OF BROWN
Manistee County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Permanent Fund

The Cemetery Perpetual Care Fund is reserved for cemetery care.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The Township 2004 tax roll millage rate was 1.3885 mills, and the taxable value was \$21,906,422.00.

TOWNSHIP OF BROWN
Manistee County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Capital Assets

Capital assets are defined by the Township as assets with an initial cost of more than \$1,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings, additions and improvements	60 years
Furniture and equipment	10-50 years

Compensated Absences (Vacation and Sick Leave)

Township employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Post-employment Benefits

The Township provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Accounting Change

Effective July 1, 2004, the Township implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). Changes to the Township's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD&A) section providing analysis of the Township's overall financial position and results of operations has been included.

Government-wide financial statements (Statement of Net Assets and Statement of Activities) prepared using the full accrual accounting for all the Township's activities have been provided.

Capital assets in the governmental activities column of the Statement of Net Assets include net assets totaling \$61,189.00.

TOWNSHIP OF BROWN
Manistee County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated two banks for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>59,222.65</u>

TOWNSHIP OF BROWN
Manistee County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 3 – Deposits and Investments (continued)

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	59 234 04
Uninsured and Uncollateralized	-
Total Deposits	<u>59 234 04</u>

The Township's investments are categorized below to give an indication of the level of risk assumed by the Township. Risk category 1 includes those investments that meet any one of the following criteria: insured, registered, or held by the Township or its agent. Risk categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the Township's name. Category 3 includes investments held by the counterparty or the counterparty's trust department (or agent) but not in the Township's name.

The GASB Statement No. 3 risk disclosures for the Township's investments are categorized as follows:

<u>Investment Type</u>	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>Carrying Amount</u>
Risk-Categorized: Operating Funds	-	-	-	-
Total Risk-Categorized Investments	<u>-</u>	<u>-</u>	<u>-</u>	-
Non-risk-Categorized: Financial Institution Pooled Funds				<u>77 719 99</u>
Total Investments				<u>77 719 99</u>

The financial institution pooled funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes that the investments in the funds comply with the investment authority noted above.

TOWNSHIP OF BROWN
Manistee County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 4 – Capital Assets

Capital asset activity of the Township's Governmental activities for the current year was as follows:

	<u>Balance 7/1/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/05</u>
Land	19 473 00	-	-	19 473 00
Buildings	41 500 00	-	-	41 500 00
Equipment	<u>26 630 00</u>	<u>-</u>	<u>-</u>	<u>26 630 00</u>
Total	87 603 00	-	-	87 603 00
Accumulated Depreciation	<u>(25 044 00)</u>	<u>(1 370 00)</u>	<u>-</u>	<u>(26 414 00)</u>
Net Capital Assets	<u>62 559 00</u>	<u>(1 370 00)</u>	<u>-</u>	<u>61 189 00</u>

Note 5 – Pension Plan

The Township does not have a pension plan.

Note 6 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

Note 7 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 8 – Building Permits

The Township of Brown does not issue building permits.

Note 9 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	<u>53 24</u>	Current Tax Collection	<u>53 24</u>

Note 10 – Operating Transfers

The amounts of interfund transfers are as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers Out</u>
General	<u>116 90</u>	Cemetery Perpetual Care	<u>116 90</u>

TOWNSHIP OF BROWN
Manistee County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended June 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Property taxes	26 522 00	26 522 00	30 295 16	3 773 16
Other taxes	1 325 00	1 325 00	2 102 62	777 62
Licenses and permits	1 004 00	1 004 00	804 00	(200 00)
State revenue sharing	53 339 00	53 339 00	47 505 00	(5 834 00)
Charges for services – PTAF	5 576 00	5 576 00	9 162 67	3 586 67
Charges for services – Other	8 921 00	8 921 00	4 690 00	(4 231 00)
Interest	1 286 00	1 286 00	2 207 34	921 34
Miscellaneous	2 318 00	2 318 00	1 170 00	(1 148 00)
Total revenues	<u>100 291 00</u>	<u>100 291 00</u>	<u>97 936 79</u>	<u>(2 354 21)</u>
Expenditures:				
Legislative:				
Township Board	6 950 00	6 683 00	6 674 82	(8 18)
General government:				
Supervisor	5 292 00	5 319 00	5 319 00	-
Elections	2 500 00	2 031 00	1 931 50	(99 50)
Assessor	7 500 00	7 500 00	6 176 00	(1 324 00)
Clerk	6 350 00	6 725 00	6 724 45	(55)
Board of Review	1 000 00	1 000 00	842 60	(157 40)
Treasurer	11 600 00	12 070 00	12 069 11	(89)
Building and grounds	9 750 00	10 627 00	9 546 20	(1 080 80)
Cemetery	6 000 00	6 000 00	3 688 25	(2 311 75)
Public safety:				
Fire	36 000 00	34 018 00	33 584 99	(433 01)
Zoning	5 300 00	5 300 00	3 908 01	(1 391 99)
Planning Commission	7 470 00	8 439 00	8 438 37	(63)
Public works:				
Highways and streets	10 000 00	34 000 00	34 000 00	-
Sanitation	15 888 00	15 888 00	12 913 28	(2 974 72)
Total expenditures	<u>131 600 00</u>	<u>155 600 00</u>	<u>145 816 58</u>	<u>(9 783 42)</u>
Excess (deficiency) of revenues over expenditures	<u>(31 309 00)</u>	<u>(55 309 00)</u>	<u>(47 879 79)</u>	<u>7 429 21</u>
Other financing sources (uses):				
Operating transfers in	100 00	100 00	116 90	16 90
Total other financing sources (uses)	<u>100 00</u>	<u>100 00</u>	<u>116 90</u>	<u>16 90</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(31 209 00)</u>	<u>(55 209 00)</u>	<u>(47 762 89)</u>	<u>7 446 11</u>
Fund balance, July 1	<u>31 209 00</u>	<u>55 209 00</u>	<u>184 080 21</u>	<u>128 871 21</u>
Fund Balance, June 30	<u>-</u>	<u>-</u>	<u>136 317 32</u>	<u>136 317 32</u>

TOWNSHIP OF BROWN
Manistee County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year ended June 30, 2005

Township Board:	
Wages	2 000 00
Payroll taxes	2 212 20
Miscellaneous	<u>2 462 62</u>
	<u>6 674 82</u>
Supervisor:	
Salary	<u>5 319 00</u>
Elections:	
Wages	1 840 00
Miscellaneous	<u>91 50</u>
	<u>1 931 50</u>
Assessor:	
Contracted services	5 580 00
Miscellaneous	<u>596 00</u>
	<u>6 176 00</u>
Clerk:	
Salary	6 329 00
Miscellaneous	<u>395 45</u>
	<u>6 724 45</u>
Board of Review:	
Wages	720 00
Miscellaneous	<u>122 60</u>
	<u>842 60</u>
Treasurer:	
Salary	7 851 00
Printing	3 182 76
Miscellaneous	<u>1 035 35</u>
	<u>12 069 11</u>
Building and grounds:	
Supplies	55 00
Snow removal	780 00
Insurance	5 916 00
Utilities	2 390 20
Repairs and maintenance	<u>405 00</u>
	<u>9 546 20</u>
Cemetery:	
Wages	2 700 00
Contracted services	785 00
Supplies	<u>203 25</u>
	<u>3 688 25</u>
Fire:	
Contracted services	22 584 99
Fire runs	<u>11 000 00</u>
	<u>33 584 99</u>
Zoning:	
Wages	3 804 00
Supplies	<u>104 01</u>
	<u>3 908 01</u>

TOWNSHIP OF BROWN
Manistee County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year ended June 30, 2005

Planning Commission:

Wages

2 565 00

Supplies

206 20

Contracted services

5 667 17

8 438 37

Highways and streets:

Contracted services

34 000 00

Sanitation:

Contracted services

12 913 28

Total Expenditures

145 816 58

TOWNSHIP OF BROWN
Manistee County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year ended June 30, 2005

	<u>Balance</u> <u>7/1/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>6/30/05</u>
<u>Assets</u>				
Cash in Bank	<u>32 54</u>	<u>651 279 68</u>	<u>651 258 98</u>	<u>53 24</u>
<u>Liabilities</u>				
Due to other funds	32 54	34 209 37	34 188 67	53 24
Due to other taxing units	<u>-</u>	<u>617 070 31</u>	<u>617 070 31</u>	<u>-</u>
Total Liabilities	<u>32 54</u>	<u>651 279 68</u>	<u>651 258 98</u>	<u>53 24</u>

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA
KENNETH P. KUSTERER, CPA

512 N. LINCOLN AVE. - SUITE 100
P.O. BOX 686
BAY CITY, MICHIGAN 48707

TEL (989) 894-1040
FAX (989) 894-5494

AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

November 19, 2005

To the Township Board
Township of Brown
Manistee County, Michigan

We have audited the financial statements of the Township of Brown for the year ended June 30, 2005. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Township of Brown in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Township Board
Township of Brown
Manistee County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

GASB 34 IMPLEMENTATION

The Governmental Accounting Standards Board issued a new reporting model for governmental units which was required to be implemented for the fiscal year ended June 30, 2004. The implementation of this pronouncement for the Township of Brown began with the year ended June 30, 2004. The daily operations and recording transactions did not change significantly, however, the Township is required to maintain additional records for the year end adjustments to the final presentation format.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated June 30, 2005.

To the Township Board
Township of Brown
Manistee County, Michigan

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Campbell, Kusterer : Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants